

Thursday, May 31, 2018

FX Themes/Strategy/Trading Ideas

- Despite firmer long-end UST yields overnight, the USD took a back-seat against most G10 peers. Weaker-than-expected ADP employment and GDP data prints also provided limited support.
- As risk sentiments stabilized somewhat, the cyclicals outperformed alongside EUR, while JPY and CHF underperformed. The EUR reversed the previous day's losses to close above 1.1650 on the easing of fears over Italy. The CAD also outperformed on the **Bank of Canada's** (BOC) hawkish hold.
- Latest headlines revealing that the Five Star Movement is willing to work with the Italian President to avoid new elections gave the markets some relief, although it remains to be seen how this can be achieved without buy-in from the Northern League. A new auction for Italian 5y and 10y debt was also sufficiently well-received to allay immediate concerns of a deeper contagion. Price movements in the EUR options space suggest that market edginess, although still elevated, has eased somewhat compared to the previous day. Note that our **FXSI (FX Sentiment Index)** has also ease marginally, while remaining in Risk-off territory.
- Elsewhere, the **BOC** held rates unchanged in what was regarded as a hawkish hold. Note the shift in statement rhetoric, which omitted more cautious language in favour of a more optimistic tone on growth. The BOC may be laying the groundwork for a rate hike in its next meeting in July. Market implied probabilities for the July hike rose above 77%, compared to just over evens prior to the meeting.
- On the central bank front, note that we will see the last flurry of Fed speakers later today and tomorrow ahead of the black-out period. In particular, watch Brainard (1700 GMT) and Bostic (1630 GMT). G7 finance ministers and central bankers are also scheduled to meet at Whistler over the weekend.
- **Overall, the markets may still be in headline watching mode into the end of the week. Pending a more stable resolution in the Italian situation, broad USD prospects may then be dictated by relative central bank dynamics as we head into the key policy meetings in June.**

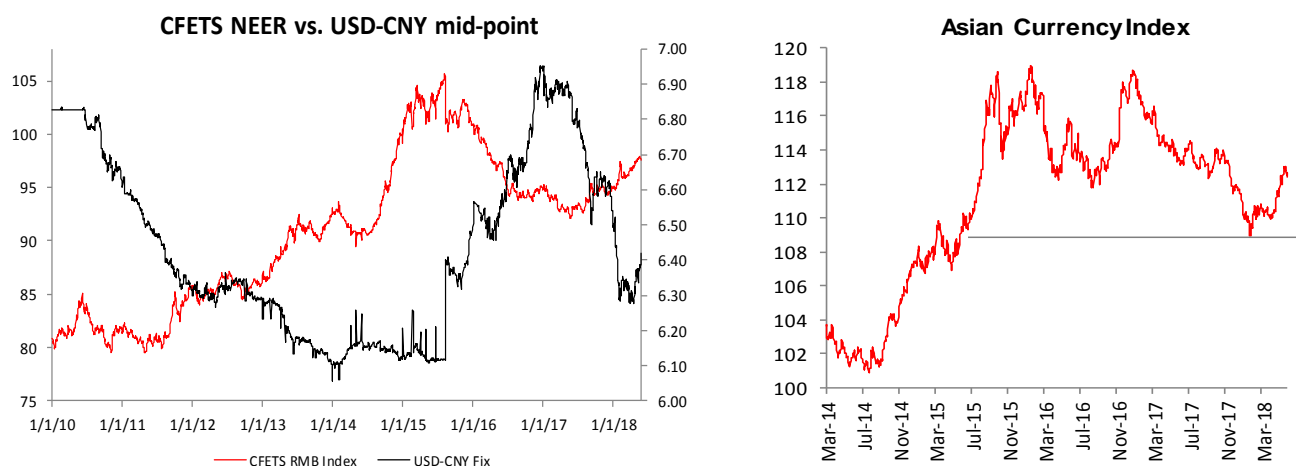
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Asian FX

- The US fired another salvo its escalating trade rhetoric against China, with Navarro calling the current situation a “trade dispute, plain and simple”. Mnuchin’s past declaration that the trade war was on hold was also dismissed as an “unfortunate sound bite”.
- At this juncture, the worsening of trade rhetoric from the US appears to be slipping under the radar as market attention is centred on Italy. A supportive lead from US/EU equities overnight, and a positive start in the Asian bourses should support the Asian currencies. The USD weakness overnight against G10 and EM FX should also have spillover effects onto Asia. Expect the **ACI (Asian Currency Index)** drift lower intra-day.
- The **net portfolio flow environment** in Asia may be starting to show a slight shift. Note the decline in inflows into South Korea over the past three sessions, while outflows from Taiwan are re-opening after consistent compression in May. Meanwhile, South Asia looks to be improving, with moderation of outflows in Thailand, India and Indonesia. The recent retreat in UST yields may have provided some reprieve for the higher-yielding South Asian countries. Nevertheless, with UST yields potentially consolidating higher heading into the June FOMC, any calls for an end to the EM sell-off at this stage would be premature.
- **Indonesia:** The Bank Indonesia (BI) delivered a 25bps rate hike in its unscheduled meeting yesterday. It remains clear that the BI will be retaining a hawkish posture going forward. However, with the next scheduled meeting almost a month away, we hold back on calling for more hikes at this point, preferring to watch developments after the two quick-fire rate hikes.
- **SGD NEER:** The SGD NEER is again firmer this morning at around +0.56% above its perceived parity (1.3467). With USD weakness overnight, the NEER-implied USD-SGD thresholds are softer. We continue to expect an intra-day range between the +0.30% (1.3427) to +0.70% (1.3374) thresholds. On a multi-session horizon, the 200-day MA (1.3366) should provide downside support.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, less than expected, at 6.4144 this morning from 6.4207 on Wednesday. The CFETS RMB Index came in a large step lower at 97.23, compared to 97.50 previously. Note also stronger-than-expected PMI prints.



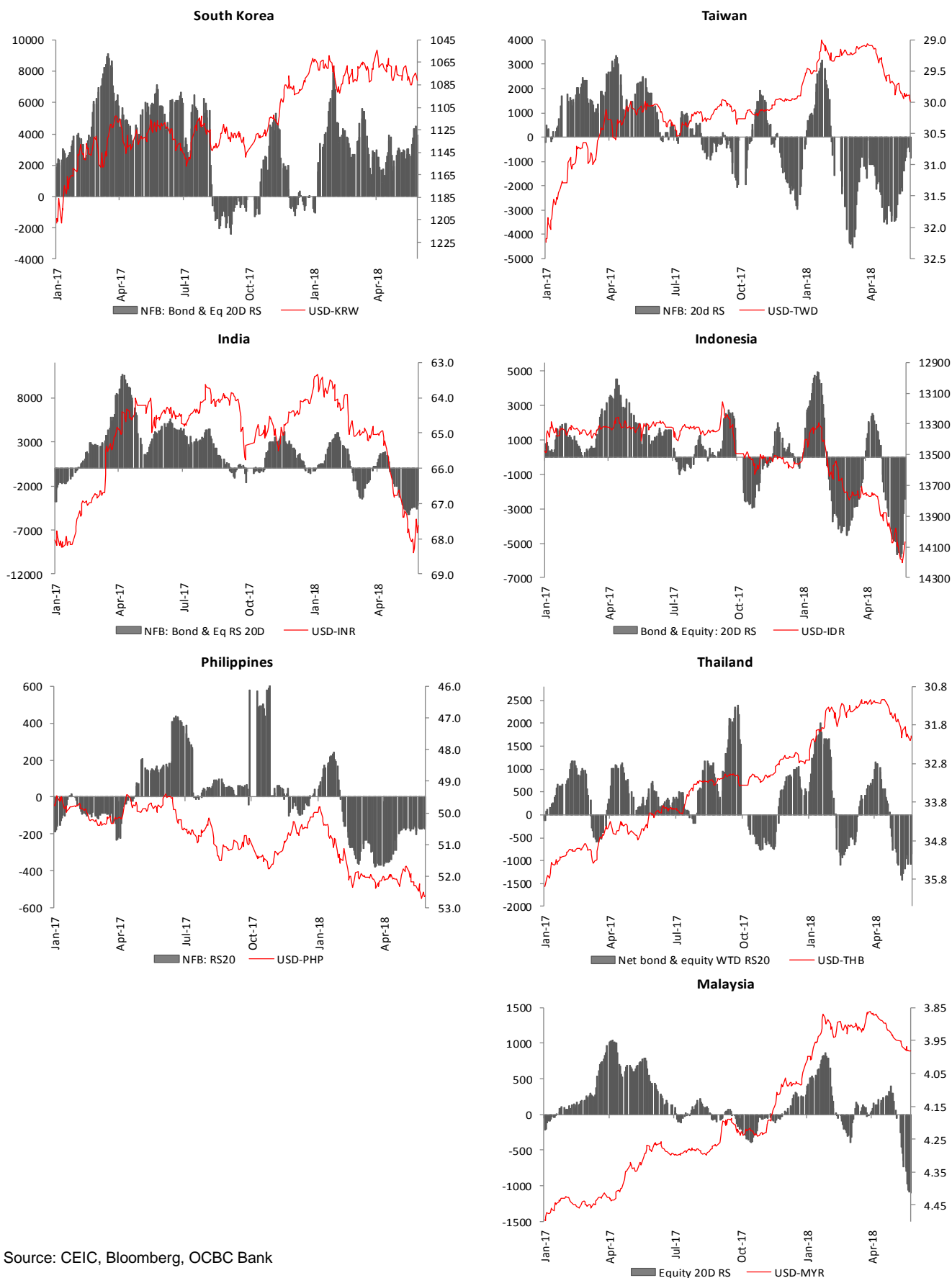
Source: OCBC Bank, Bloomberg

Short term Asian FX views

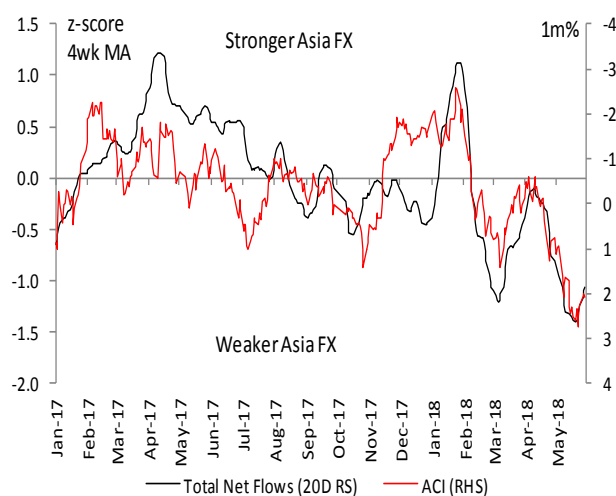
Currency	Bias	Rationale
USD-CNH	↑	RMB Index should be capped at 98.00, RMB to shoulder potential volatility instead; Sino-US trade tensions reigniting; USD-CNY midpoints still habitually above neutral models
USD-KRW	↔/↑	Evolving state of affairs over the Korean peninsula; net portfolio inflows remain at healthy levels; inflation/current account surplus projection downgraded; BOK unchanged at 1.50% in May
USD-TWD	↑	Net equity outflows compressing significantly, 1Q current account surplus shrinks
USD-INR	↔/↑	Firmer than expected WPI and CPI data puts pressure on RBI to hike early, watch 1Q17 GDP prints for further cues; net portfolio outflows attempting to moderate; lower crude price may provide some reprieve; risk premia from negative political developments in Karnataka with possible implications on fiscal stance going forward
USD-SGD	↔/↑	SGD NEER should be capped at +0.80%; 1Q GDP prints in line, but CPI missed expectations; pair responsive to firmer DXY
USD-MYR	↑	Surprise defeat for the ruling BN coalition; neutral to rich valuation compared to peers on foreign reserves and current account measures, sustained net equity outflows following election outcome
USD-IDR	↔/↑	BI hiked rates by another 25 bps on the 30 May unscheduled meeting; IDR stability the main objective for monetary policy for now, growth outcomes to be supported by other policy tools; net portfolio outflows deepening
USD-THB	↔/↑	BOT remains accommodative, keeping rates unchanged in the latest meeting; net portfolio outflows moderating; unexpectedly strong 1Q18 GDP underpins back-end in govie yields
USD-PHP	↔/↑	BSP hiked policy rates as expected while signalling the possibility of further hikes; BSP governor appear comfortable with recent weakening of the PHP

Source: OCBC Bank

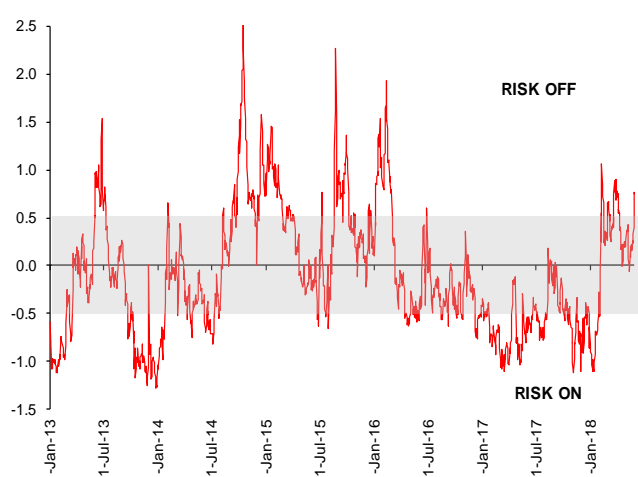
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

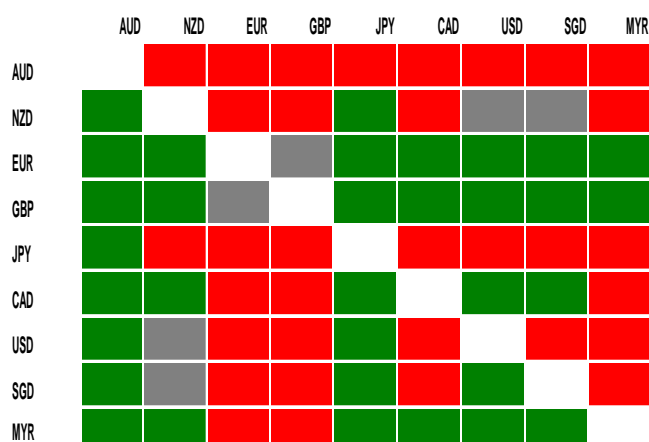
	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.202	0.889	0.571	-0.087	0.370	0.085	0.023	-0.185	0.827	0.854	-0.994
MYR	0.964	0.096	0.785	0.880	0.102	0.681	0.301	0.391	-0.760	0.722	0.692	-0.964
PHP	0.899	-0.094	0.733	0.756	0.213	0.405	0.193	0.051	-0.354	0.715	0.669	-0.904
CNY	0.889	-0.440	1.000	0.151	-0.443	-0.011	-0.120	-0.395	0.329	0.893	0.915	-0.880
TWD	0.883	-0.056	0.777	0.663	-0.067	0.470	0.251	0.154	-0.315	0.676	0.688	-0.884
CNH	0.854	-0.478	0.915	0.165	-0.380	0.000	-0.296	-0.375	0.204	0.856	1.000	-0.872
SGD	0.778	0.121	0.565	0.590	0.157	0.346	0.275	0.288	-0.338	0.418	0.640	-0.759
THB	0.723	0.430	0.470	0.770	0.164	0.678	0.558	0.651	-0.688	0.324	0.397	-0.714
IDR	0.690	0.480	0.392	0.662	0.197	0.772	0.608	0.594	-0.702	0.218	0.339	-0.655
INR	0.642	0.308	0.401	0.792	0.354	0.702	0.500	0.469	-0.525	0.264	0.232	-0.627
CAD	0.547	-0.592	0.633	-0.267	-0.302	-0.433	-0.464	-0.659	0.492	0.661	0.748	-0.553
KRW	0.535	0.159	0.520	0.230	-0.420	0.407	0.360	0.179	-0.168	0.326	0.481	-0.494
AUD	0.301	-0.092	0.204	0.444	-0.112	0.630	-0.018	0.146	-0.390	0.350	0.138	-0.341
JPY	0.085	0.853	-0.120	0.389	0.493	0.459	1.000	0.668	-0.451	-0.348	-0.296	0.043
USGG10	-0.202	1.000	-0.440	0.323	0.531	0.427	0.853	0.768	-0.572	-0.662	-0.478	0.242
CHF	-0.475	0.493	-0.706	-0.052	0.285	-0.030	0.292	0.502	-0.212	-0.722	-0.496	0.516
NZD	-0.614	-0.403	-0.259	-0.723	-0.559	-0.403	-0.517	-0.435	0.454	-0.196	-0.278	0.559
GBP	-0.950	0.335	-0.873	-0.577	0.168	-0.402	0.148	0.100	0.205	-0.851	-0.862	0.957
EUR	-0.994	0.242	-0.880	-0.588	0.082	-0.362	0.043	0.052	0.192	-0.841	-0.872	1.000

Source: Bloomberg

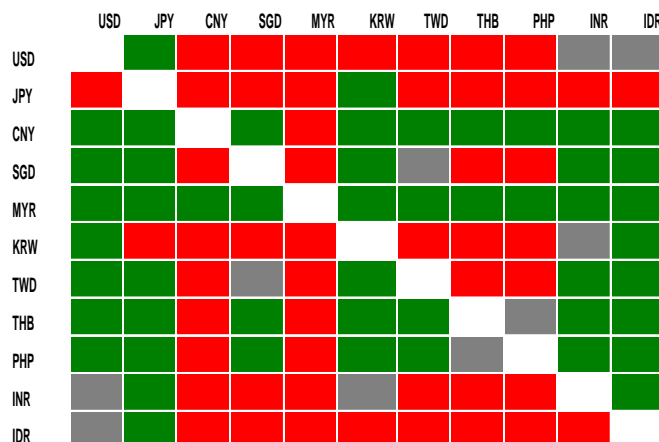
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1555	1.1600	1.1669	1.1700	1.2017
GBP-USD	1.3205	1.3231	1.3286	1.3300	1.3583
AUD-USD	0.7457	0.7500	0.7574	0.7600	0.7606
NZD-USD	0.6855	0.6900	0.6987	0.7000	0.7029
USD-CAD	1.2800	1.2812	1.2893	1.2900	1.3006
USD-JPY	108.26	108.37	108.74	109.00	110.20
USD-SGD	1.3337	1.3366	1.3388	1.3400	1.3469
EUR-SGD	1.5525	1.5600	1.5622	1.5700	1.6005
JPY-SGD	1.2239	1.2300	1.2313	1.2373	1.2400
GBP-SGD	1.7754	1.7776	1.7788	1.7800	1.8148
AUD-SGD	1.0095	1.0100	1.0140	1.0184	1.0187
Gold	1281.20	1300.00	1302.10	1306.64	1321.57
Silver	16.50	16.51	16.53	16.60	16.70
Crude	67.78	68.10	68.14	68.20	72.83

Source: OCBC Bank

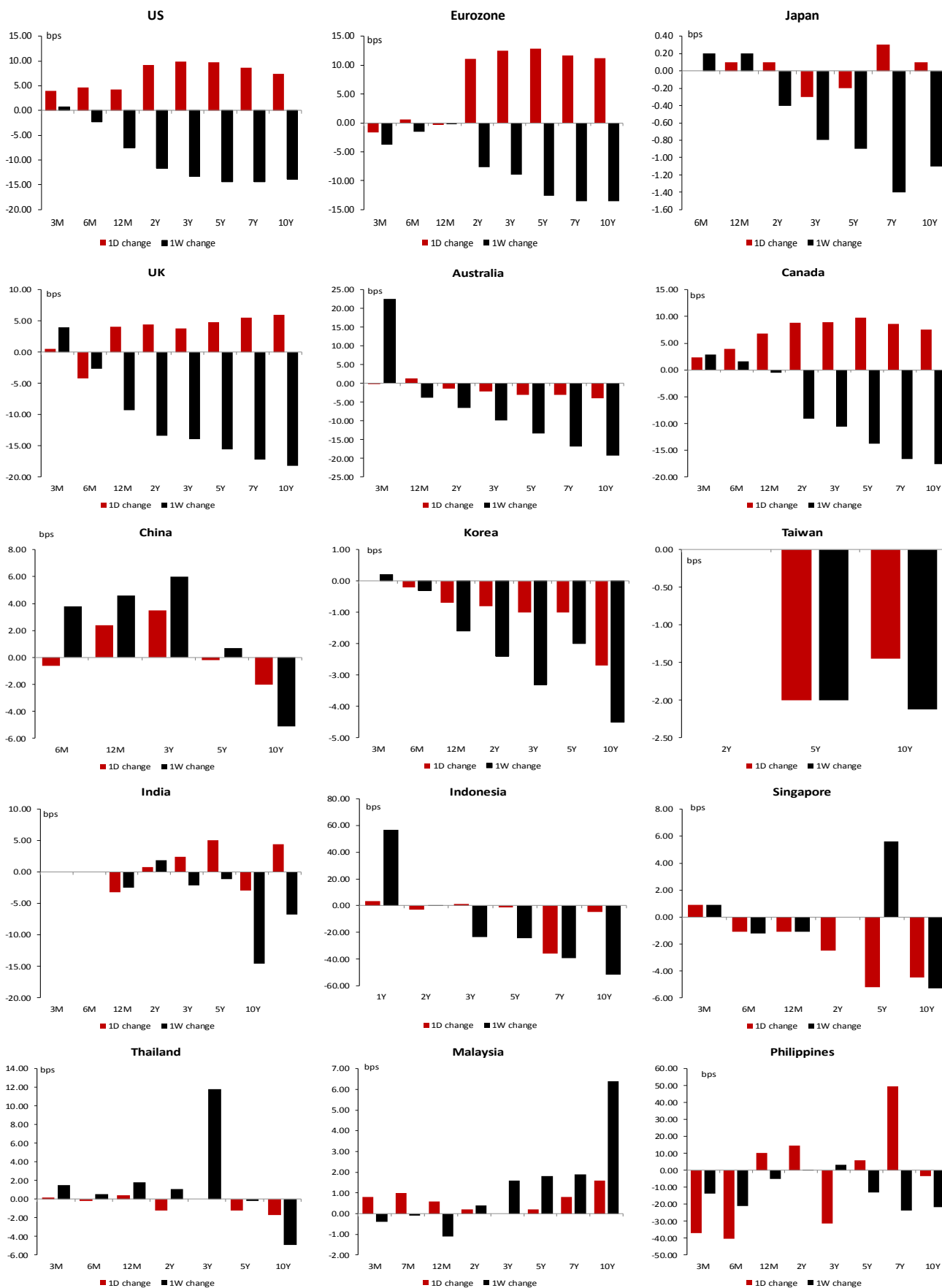
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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